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### Strategic alliance development

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## COMPARISON AND DISCUSSION OF THE RESULTS FROM THE CASE STUDIES

The purpose of this chapter is twofold: to compare the three case studies described in Chapters 6, 7 and 8 on the basis of the variables of the model and to suggest a concluding model to portray the impact of each variable in the process development of strategic alliances. We start the analysis by discussing the relevant literature covered in Chapters 2 and 4, followed by an observation of similarities and/or differences and an attempt will be made to explain the course of events.

This chapter is divided into three parts. Firstly, we present the general characteristics of the case studies. Secondly, we discuss all the variables of this research based on the relevant literature and the empirical results of our case studies. From the comparison between the theoretical background and the empirical evidence we draw some conclusions. Finally, this section will close with an adapted version of our theoretical model.

### 9.1. General Characteristics of the Case Studies

To describe the results of the empirical study, we start the discussion with a short recapitulation of the three cases in this research. The first case, Akzo Nobel (Netherlands) and Huntsman (U.S.A), started their cooperation at the beginning of the seventies. This partnership was based on the contractual agreement that Akzo Nobel would supply chlorine to Huntsman and take back the residue (HCl), to be used for Rovin's PVC plant (a joint venture between Shell and Akzo Nobel that was sold to ShinEtsu in January 2000). By linking together their product schemes, Akzo Nobel had a secure market for its chlorine and also enjoyed the benefit of sharing the production costs of HCl. On the other hand, Huntsman profited from the advantages of not having to pay for the full cost of chlorine while solving the problem of HCl disposal. Although the alliance agreement was only signed by Akzo Nobel and Huntsman, the position of ShinEtsu is important in this chain because a disruption in the ShinEtsu plant could have a significant impact on Huntsman's production. If ShinEtsu could not operate its PVC plant, it meant that Huntsman had to close their MDI plant

because there was no way for them to get rid of the huge amount of HCl that came out of their plant. In this chain, Huntsman is evidently dependent on Akzo Nobel and ShinEtsu. For more than 30 years, Akzo Nobel and Huntsman got along very well in this alliance. Akzo Nobel not only performed as a reliable supplier but also as a respectable investor for the second Huntsman MDI plant. In May 2001, however, a severe disagreement occurred. ShinEtsu, which was a relative newcomer in this chain, experienced a long maintenance stop that adversely affected the Huntsman factories. The maintenance stop lasted 35 days while in the contract it was stated that the outage should last no longer than 21 days. It meant that Huntsman could not transport their HCl to ShinEtsu and that it also had to stop their production during that period. In this case, Huntsman accused Akzo Nobel of not explaining the alliance contract to ShinEtsu properly. This unpleasant situation led to irritation at Huntsman's side, which eventually endangered the alliance's continuity. Huntsman submitted a significant amount of claims for the losses incurred during the maintenance outage. Nevertheless, both parties realized the eminent position of their partner in their business and therefore attempted to find an acceptable solution. Having gone through intensive communicative actions, both parties hope to reach a satisfactory solution in the year 2003. It is likely that Akzo Nobel will partly compensate Huntsman's financial claim. On the other hand, the Dutch partner will be compensated through an extension of business with other Huntsman subsidiaries. Both parties declared their commitment to further continue their fruitful partnership.

The second case, Avebe (Netherlands) and Noveon (U.S.A.), started on March 24, 1995 and collapsed after four years of cooperation. This alliance aimed at joint product development and a distribution of high-performance thickeners for textile-printing applications, based on a combination of Noveon's synthetic resins and Avebe's modified starches. This cooperation was a joint effort between two companies who had complementary knowledge and markets. Noveon was an outstanding synthetic producer in the U.S. market, while Avebe was a worldwide starch manufacturer with an excellent network in the Far East and Europe but not in the American printing market. By combining their complementary knowledge and markets, they intended to achieve some synergies. Both companies acknowledged the excellent relationship they experienced throughout the years of their cooperation. There was distinct chemistry among all managers who were involved in this alliance. Unfortunately, the alliance team was split up during the marketing of their joint product. Both parties experienced re-structuring within their organization. Some people who were initially in charge for this project got new positions while others left their respective companies. This situation eventually diminished the commitment to the project. The marketing performance of the joint product was far from successful. Both partners failed in introducing the product into the marketplace.

Table 9.1. Short Description on the Case Study Result

	Akzo Nobel-Huntsman	Avebe - Goodrich	KLM - Northwest
Industry	chemical	textile	airline
Formation Phase			
Year of creation	1975	1995	1991
Initial Goals	Secure supply of material, economies of scale, growth of the business	Invent a high quality product, expand to a new market	Consolidation in trans-Atlantic market
Agreement on Partner Contribution	<ul style="list-style-type: none"> <li>product manufacture: Akzo supply chlorinate and caustic to Huntsman</li> <li>Huntsman deliver Hcl to Rovin</li> </ul>	<ul style="list-style-type: none"> <li>joint product development</li> <li>market together the joint product</li> </ul>	<ul style="list-style-type: none"> <li>full coordination in North Atlantic route</li> <li>cooperation in the cost of handling, catering, joint purchasing and engineering on a world-wide basis</li> </ul>
Operational Phase			
Partner Contribution	<ul style="list-style-type: none"> <li>input, capital</li> <li>unequal (partner 1 have more contribution)</li> <li>complementary contribution</li> </ul>	<ul style="list-style-type: none"> <li>input, technology, man power, market</li> <li>unequal (partner 1 have more contribution)</li> <li>complementary contribution</li> </ul>	<ul style="list-style-type: none"> <li>input, capital, technology, man power, market</li> <li>fairly equal</li> <li>similar contribution</li> </ul>
Control	<ul style="list-style-type: none"> <li>input</li> <li>equal</li> <li>A shared management strategic alliance</li> <li>Partner 1 has more power of control</li> </ul>	<ul style="list-style-type: none"> <li>input, technology, man power, market</li> <li>equal</li> <li>A shared management strategic alliance</li> <li>Partner 1 has more control in the product development</li> <li>separate control in marketing and sales</li> </ul>	<ul style="list-style-type: none"> <li>input, technology, man power, market</li> <li>equal</li> <li>A shared management strategic alliance (Alliance Steering Committee)</li> <li>A split control depend on area of expertise</li> <li>A dominant partner based on the market expertise</li> </ul>
	<ul style="list-style-type: none"> <li>operational control</li> <li>financial control</li> </ul>	<ul style="list-style-type: none"> <li>operational control</li> </ul>	<ul style="list-style-type: none"> <li>Strategic control</li> <li>Operational Control</li> <li>Financial Control</li> </ul>
	No fear of spill over of control, because: <ul style="list-style-type: none"> <li>type of the product</li> <li>different expertise and priority of business</li> </ul>	Strong spill over of control by <ul style="list-style-type: none"> <li>divide the world into two market</li> <li>not share the ingredient of the product</li> <li>not apply the right patent</li> </ul>	No fear of spill over of control, because: <ul style="list-style-type: none"> <li>long-term agreement</li> <li>huge scope of cooperation</li> </ul>
Conflict	Intensity of Conflict: medium Dominant Issues of conflict: <ul style="list-style-type: none"> <li>maintenance stop</li> <li>the existence of the new partner</li> <li>partner contribution and control</li> </ul>	low None	high <ul style="list-style-type: none"> <li>pricing policy, network, positioning the alliance, short-term vs long-term orientation</li> <li>partner contribution and control</li> </ul>
Communication	regular meeting two times in a year representative manager take care of the alliance relationship Strategic action shift to communicative action	regular meeting two times a year excellent in the beginning but vanished during the marketing period strategic action	regular meeting every three months office representatives + alliance department Communicative action
Evaluation Phase			
Performance	<ul style="list-style-type: none"> <li>excellent financial performance</li> <li>fairly satisfied with the relationship</li> <li>rapid growth of the bussiness</li> </ul>	<ul style="list-style-type: none"> <li>unsatisfied economic performance</li> <li>satisfied with the relationship</li> <li>the objective is failed</li> </ul>	<ul style="list-style-type: none"> <li>excellent financial performance</li> <li>satisfied with the relationship</li> <li>the objective is achieved</li> </ul>
Evolution	Continue but still struggling to find a solution	Died out	Continue with a different type of contract

In the meantime, Noveon purchased Diamalt, which was a direct competitor of Avebe in Europe and Asia. Soon after that, both companies found themselves competing in the same market. This situation ultimately impeded the success of the project because both partners could no longer share marketing information. The alliance finally dissolved after four years of operation.

The third case, the KLM (Netherlands) and Northwest (U.S.A) alliance, was established in 1991. Their co-operation gradually developed from a joint code sharing to the formation of a joint venture (JV) that combined these two companies to the point of being dependent on each other. The KLM-Northwest JV relates to a joint operation on the North Atlantic routes, and the routes between the Netherlands and India. Furthermore, this partnership also covered some co-operation in ground handling, sales, catering, information services, maintenance, and purchasing on a worldwide basis. Recorded in history as the first airline alliance in the world, this alliance is colored with a lot of sparks. However, the lessons learnt from their alliance have proved invaluable. In the period 1994-1997, both companies had a number of disagreements about many issues related to their alliance. Besides, Northwest was afraid that KLM wanted more control in their company

This conflicting situation apparently soured the alliance relationship. On the other side, both airlines realized how important this alliance was for them and strived to find a mutual solution. KLM finally decided to make a difference between their company's financial participation and a full trans-Atlantic commercial cooperation by selling back their entire package of shares to Northwest and formulated a legal long-term agreement to uphold the JV. This solution restored the trust that had deteriorated for a while. Both companies were further committed to intensifying their partnership by changing some tenets of the alliance agreement and completely integrating their sales forces. This new arrangement provided a tremendous benefit for both airlines in terms of being able to solve the problem of competition or other problems that could cause the alliance to fall apart. Another dominant characteristic of this alliance is the consistent structuring of communicative action in their day-to-day alliance relationship, which is reflected by the use of consensus as a problem-solving mechanism. The major characteristics of the three cases are described in Table 9.1.

## **9.2. The Analysis of Each Variable**

### **9.2.1. Initial Goals and Reasons for Cooperation**

Quite a number of researchers have paid special attention to the goals and reasons for forming an alliance (see the discussion in Chapter 2). Table 2.1. in Chapter 2 indicates that a strategic alliance quite likely the result of a number of different reasons and motives, which means that expectations are complex. This is one of the main reasons why it is vital for any strategic alliance management to

clarify their goals. All those involved in an alliance should know from the beginning what goals the partner organizations are pursuing and what expectations they have of the alliance (Buchel et al. 1998, p.16). Those expectations, which led to the creation of the strategic alliance, influence their alliance's structure. The reasons for building an ISA are essential and influence the functioning of a partner's capabilities in the alliance, the overall position and their critical mutual requirements (Hyder 1988). Reasons can be seen as driving forces for individuals/companies by which they attempt to achieve some goals in order to fulfill some expectations. Hence, it is very common that partner intentions in establishing an alliance constitute the rationale for evaluating the success and the failure of an alliance at latter stages (Olk & Young 1997).

In the Akzo Nobel-Huntsman case, it is apparent that the reasons for both companies to establish the alliance was to obtain a secure supply of material, economies of scales and a steady growth of their business. These reasons drove their focus of control on how they would maximize and develop the chain, which is related to operational and financial control. These three main purposes apparently also became their main criteria for evaluating the alliance. Since the MDI and chlorine demand have increased from time to time, both partners perceived the alliance performance as economically satisfactory. They attained the goals of their partnership in term of a secure supply of their main material and achieved economies of scale.

Avebe's and Noveon's main reason was to create a high-quality product and that guided their interest in joint product development. As a consequence, they paid less attention to the marketing of the product, which in the end resulted in an unsatisfactory economic performance for both companies. One of the alliance's goals to capture the reactive dye printing market did not materialize. As a result, both partners were not satisfied with the alliance performance. Although they successfully developed a superior product for the reactive dye printing market, customers were reluctant to pay a high price for the product. The economic performance of the alliance fell far below their expectation.

The reasons and the scope of the KLM-Northwest partnership are more complex compared to the other case studies in this research. The alliance aimed for a thorough consolidation over their entire airline activities in the trans-Atlantic market. Since partner contribution and control in this alliance was spread over many activities, the measurement of performance became more multifaceted compared to the other two case studies in this research. The alliance evaluation not only covered the operational and financial aspects but had to be in line with the strategic direction of both companies. However, during the period 1994-1997 both companies had a different strategic policy. Northwest had a short-term orientation while KLM's strategy was more long-term. These divergent policies provided a different appreciation of the alliance performance and stimulated a discussion about how they should position the alliance in the

*Most of the cases, the contract is not unforeseen because this is only a piece of paper where the people involved at that moment in time thought that it was the best. It is also a result of a compromise. It did not cover everything, because it is absolutely impossible to have a contract that tackles all issues you can think of.*

*(Akzo Nobel Account Manager, 1 May 2001)*

The above statement provides a valuable message that however detailed the agreement is, alliance managers cannot completely rely on the contract as the only means to make the alliance work. The same issue was also demonstrated by KLM and Northwest management who agreed that their alliance agreement was fairly detailed covering all items of their co-operation, but that it still did not cover everything in detail. They always needed to settle the details during the operationalization of ideas by allowing communicative actions and promoting consensus.

*In principle our contract is clear but then even though it is very clear, it is always difficult to cover all situations. This agreement is very complex and it can never cover all the details. After we signed the agreement, we needed to go to further consent negotiation about the settlement.*

*(KLM Vice President of Alliances, 9 October 2001)*

In this respect, the existence of the Alliance Steering Committee was of great importance. Some issues that had not yet been settled in the agreement were discussed first in the KLM-Northwest alliance working group, which referred to the steering committee only if they could not reach an agreement. In addition, communicative actions between the managers of these two airlines reduced the likelihood of conflict and misunderstanding in their partnership.

From these two cases, we can draw the conclusion that a contract is vital during the alliance formation, even if the two parties are positively oriented towards one another. A clear contractual agreement is a first requirement to ensure that their partner will fulfill their objectives. A contract also plays the role of a safety net in case differences arise and the cooperation threatens to fail. But a clear contractual agreement is not sufficient to guarantee the success of an alliance during the operational phase. Here, the relationships and excellent communication are key features and the contract becomes less a vocal issue though it nonetheless remains important.

The Avebe-Noveon case shows a different situation. The alliance's initial contract was obviously clear for both partners and proved to be a strong guideline for their co-operation. There was no serious dispute that occurred during the co-operation due to different interpretations of the alliance agreement. However, we have to be cautious in our analysis because the entire Avebe-Noveon agreement was not formulated in one time but was developed step by step. At the beginning of their co-operation, they only made an agreement about the joint development of a product. During the product development period, both companies finalized a document about marketing and

sales. Thus, the agreement was formulated based on the dynamic requirement of their co-operation. Nevertheless, it did not mean that the contract was the most powerful vehicle to make the alliance work. One Noveon executive manager underlined that a contract was important during the dispute, but not the best tool to solve problems in their partnership.

*To me, a contract is only important when we have a conflict. As long as everything is going fine, nobody ever bothers to look at it. It becomes the way to settle a dispute. If you have a good working relationship with your partner, you never have to go back to the contract because you always settle the dispute along the way of your partnership and it never gets to a point where you have to take out a piece of paper and say: "hey, you said that you are going to do this!" By doing this, you will not get to the point. From our side, I don't think we used the contract to get the resolution done.*

*(Noveon Vice President of Technology, 16 May 2002)*

Adding up, one Akzo Nobel manager emphasized that a contract is particularly important as a reference when a dispute involves a significant amount of money.

*I think that there a lot of things we deal with our partner without looking into the contract but when a substantial amount of money is involved, it always starts with looking at our legal position. That is more or less the starting point for all other things.*

*(Akzo Nobel President Base Chemical, 30 September 2002)*

It is clear that the role and need for a contract are more essential when the risk for partner opportunism is perceived to be high. The above two quotations are in line with the analysis of Das and Rahman (2002, p.104) who state that the logic of using contracts to deter partner opportunism is based on rules and legal sanctions. The carefully worded contractual clauses are intended to prevent unwanted actions by the alliance partner. The partner will refrain from acting opportunistically if its alliance counterpart can legally hold the partner responsible for opportunistic behavior. Examples of opportunistic behavior are withholding or distorting information, shirking or failing to fulfill promises or obligations, appropriation of the partner firm's technology or key personnel, late payments and delivery of substandard products (Parkhe 1993, p. 828).

A contractual provision can also dictate the steps for dissolving an alliance. Wiliamson (1985) argues that firms become especially vulnerable to partner opportunism near the dissolution stage because of small number of conditions. Contracts can lay out the rules for dividing mutually held alliance assets and any other aspect that may otherwise complicate the alliance dissolution process. As an example, consider the KLM and Northwest contract that clearly explains the existing rules and the consequences the alliance partner will face if they terminated the alliance.



*At the moment when you make a contract, it is very important to discuss an exit agreement or way out of the contract. It is important to think about the divorce of the partners. There are all kinds of parts in the contract where the exit conditions are defined, which force you to think over and over again when you are trying to break up the relationship.*

*(KLM Vice President of Alliances, 9 October 2001)*

In order to safeguard the importance of the alliance, parties explain on paper the exit rules and the obligations of the alliance partners if the alliance terminates before the due date. The objective of this arrangement is not only meant to protect the interest of the participating companies but also to ensure that their partner will not behave opportunistically. A high penalty for breaking such an agreement would make the alliance partner seriously consider the consequences before taking a crucial decision.

We may, therefore, draw the following conclusions.

- ➡ A clear contractual agreement is necessary but not sufficient for the formation of an alliance to ensure that the partners will fulfill their objectives but it cannot guarantee the success of the cooperation.
- ➡ The carefully worded contractual clauses are intended to prevent unwanted actions by the alliance partner
- ➡ Contracts can lay out the rules for dividing mutually held alliance assets and any other aspect that may otherwise complicate the alliance dissolution process.

Thus, to serve as an effective governance structure in an alliance, a contract ought to express the current (at the time of negotiation) intentions of the parties about: (a) *what* they will provide each other in the future in exchange of access to resources, (b) *how* they will design and manage the production functions that will make use of the resources, and (c) some sense of *when and under what circumstances* their relationship will end.

### 9.2.3. Partner Contribution

In a situation where ownership is not an issue, the contribution of partners in an alliance might be the major source of bargaining power. In this case, both the scope and the extent of the contributions are important. As far as the scope is concerned, partners' contributions can be either "similar" or "complementary" (Contractor & Lorange 1988). At the same time, the extent/degree of the contributions may be either "equal" or "unequal". An interesting study conducted by Lin et al. (1997) indicates that the degree of partner contribution affects its extent of control while the scope of contributions affects its focus of control. In other words, if a firm contributes more critical resources to an ISA than its partners, it will have a greater ability to

control the alliance. And if the partner's contribution is different in scope, its control of the ISAs will focus on different managerial activities. For instance, partners who contribute financial resources to the alliance will focus their control on the economic performance whilst partners who contribute to the development of know-how will focus more on the learning process of technology in their partnership.

The Akzo Nobel-Huntsman case shows that Akzo Nobel made a higher contribution in terms of raw materials. As a consequence, they had a stronger control on the operational aspect of the alliance compared to Huntsman. Although the scope of the cooperation was mainly on the supply of raw material, both companies were focusing their control more on the operational and financial aspects of the alliance. There is no strategic control implemented in this cooperation.

The same development occurred in the Avebe-Noveon partnership. Avebe's higher contribution in R&D activities placed them in a better position of control during the development of their joint product. In terms of market knowledge, Avebe also had more value added about know-how and market access because they already had thirty years of experience in disperse printing, which is relatively similar to reactive printing (the market they would like to enter in). This situation made Avebe more competent in entering the reactive printing market. On the other hand, the different market expertise of both partners provided them with an autonomous control over the market. Noveon was responsible for the American market and Avebe was in charge of the European and the Far East markets.

In the KLM-Northwest case, the assessment of partner contribution turned out to be more complicated compared to the other two cases because there were some external determining factors that influenced the contribution of both airlines, such as the changing value of the dollar, and the different quality of destinations. These divergences were transparently illustrated in their joint database so it did not cause any discussion about who was contributing more to the alliance. Each partner obviously contributes the difference between its traffic revenues and operating expenses to the alliance. These differences did not cause conflict because flight schedules were jointly decided.

*Sometimes an individual department felt that it made more contribution than the others but it did not always know what was happening in the passenger business unit or in the maintenance department. On the top of this, there is coordination that is done by the passenger business unit and the financial people. They keep track of the final settlement between two airlines to ensure that such distinctions are taken into account. It all comes down to the bottom line where we sit down together to make a reasonable settlement for the two airlines. You can do that if you have a good spirit of life together, otherwise there is always a good reason to "fight".*

*(KLM Director of Alliances, 9 October 2001)*

In the end, all the revenues will be divided equally. Since both carriers agreed to a 50-50 contribution, this parity is reflected as well in their control. Both parties have the same power of control over the alliance and an equal say during the decision-making process. This reconfirms our assumption that a balanced partner contribution will facilitate equal control in the alliance. However, since both airlines have different knowledge and market expertise, their degree of control over certain areas of their cooperation also differs from one another. Northwest executes more control in the United States, while KLM enjoys autonomous control in Europe. Concerning the influence of partner contribution on the focus of control, it is obvious that this alliance divided its control over operational, financial and strategic matters. Both partners required equal contribution in all aspects of their partnership and a thorough control over all the activities under the same helicopter vision, which is decided jointly during the quarterly Alliance Steering meeting.

*In assessing partner contribution in the alliance, firms should be aware that the degree of a partner's contribution is likely to have an influence on the extent of control, and the scope of contribution is directly linked to the focus of control.*

#### **9.2.4. Control**

##### **9.2.4.1. Extent of Control**

Most studies about the extent of control focus on the centralization of the decision-making process or on the distinction of which party (partner in the ISA) makes the larger number of strategic and operational decisions for the alliance. In studying the extent of control, a great number of researchers look at who takes the decisions in certain areas (Geringer & Herbert 1989). Based on the study conducted by Killing (1988), we could classify ISAs according to the role played by each partner into four types of alliances:

- (1) Trading alliance: An agreement between firms that are actual or potential competitors to buy and/or sell technical information, raw materials, goods, or services. The Akzo Nobel-Huntsman alliance could be designated as this type of cooperation.
- (2) Coordinated-activity alliance: An agreement between firms to coordinate activities and perhaps share information to the benefit of all partners. Research alliances in which the total task is divided between the partners, each of whom works separately on the problem, are often in this type. The Avebe-Noveon partnership illustrates very aptly in this type of cooperation.
- (3) Shared activity alliance: An agreement between firms to work directly together to achieve a common objective. An example is the joint research laboratory employing fifty engineers that was established by Bull, ICL, and Siemens in 1984.

- (4) **Multiple-activity alliance:** A non-equity alliance that has many activities. The KLM-Northwest alliance, for example, involves joint operation in the North Atlantic routes, joint frequent flyer programs, and also co-operation in ground handling, sales, catering, information services, maintenance, and purchasing on a worldwide basis.

The simpler the task that an alliance has to carry out, the simpler its organizational arrangement can be (Killing 1988, p. 63). The role played by the partners in an alliance will tend to reflect the quantity and similarity of skills and resources that each partner brings to the alliance. Generally, the more similar the skills and more equal the contribution, the more likely a shared decision-making alliance is implemented.

Looking at the three cases, it is apparent that in general there is shared decision-making control in these three alliances, meaning that both parties have an equal say in the decision-making process. Nevertheless, we observed that at the departmental level there is more intense cooperation that leads to a difference in partner contribution. So, if at the general managerial level there is shared decision-making, then there might be split control in the procedural execution. Figure 9.1 illustrates the extent of control in the three case studies.

Figure 9.1. The extent of control in the three case studies

		Similarity of partner skills	
		DISSIMILAR	SIMILAR
Equality of Partner Contribution	EQUAL	split control ● B ● C	▲ A ▲ B ▲ C shared decision making
	UNEQUAL	dominant partner or split control ● A ● B ● C	one partner probably dominates

**Relative control of the alliance**

**Note:**

A = Akzo Nobel -Huntsman Alliance  
B = Avebe - Noveon Alliance  
C = KLM - Northwest Alliance

▲ = Alliance control in general  
● = execution of control at departmental level

Source: Adapted from Killing (1988, p.63)

Acknowledged as a trading alliance, the Akzo Nobel-Huntsman partnership perhaps is the simplest type of cooperation compared to the other types of alliances. A study conducted by Killing (1998) demonstrated that once these routine issues are settled and terms are set, the interface between the firms is typically handled by functional managers (in the Akzo Nobel-Huntsman case that role is handled by the purchasing manager). The case description indicates that

there is shared management control in this alliance. However, since Akzo Nobel is the one who is responsible for the delivery process of the raw materials in this chain, they have more control during the procedural execution. Due to the dissimilar skills of both partners and the significant role of the Dutch partner in this alliance, Akzo Nobel has a dominant control over the operational matters. This situation did not cause any conflict because both partners have agreed from the beginning that Akzo Nobel would be responsible for the materials and also the transportation of those resources from one site to the other.

The same condition is illustrated as well in the Avebe and Noveon co-operation. Even though in principle they agreed about shared management of control, in the procedural execution they adopted split control and partner control. Avebe exercised relatively dominant control over the product development because of the more intensive contribution they made to the alliance. Since both companies had different expertise in the markets, they decided to introduce a split control in marketing and sales of the product. Noveon agreed to market the product in America and the Caribbean, whilst Avebe became responsible for marketing efforts in Europe, Asia Pacific and Russia.

The KLM-Northwest case shows that the wide scope of this alliance led to tasks that required more complex organizational arrangements. This accords with Killing's (1988) analysis who stated that if a joint venture is being formed, personnel is likely to be provided by each parent company, and these people will have links both to the joint venture's general manager as to their original company. If a non-equity alliance is being formed, interfaces will be created between the partners using committees and boards at a number of hierarchical levels. The KLM-Northwest alliance is a mixture of these two categories. Although both airlines claim that their partnership could be categorized as a joint venture, no new legal entity was established. In managing and coordinating the alliance, both airlines established an Alliance Steering Committee and a number of working groups, which are responsible for the entire control in the alliance. Shared decision-making prevails in this group of representatives. Each party has equal power in making a decision for the alliance. However, during the procedural execution both split control and dominant control are present in the alliance.

- Split control is implemented when it is related to the market. The partner who has more knowledge about a particular market will have more power of control over that market. In this respect, the American partner has a higher degree of control in America than in Europe, and vice versa with respect to the Dutch partner.
- These two companies also have a different expertise, specifically in the area of technology and knowledge that resulted in a dominance of control over the area of its expertise.

In sum, the KLM-Northwest alliance is characterized by shared decision-making control, split control and dominant partner control that have been implemented in different areas of their business depending on the exclusive know-how of the respective airlines.

Based on arguments from the literature and the case findings, we may conclude that the framework designed by Killing (1998), as illustrated in Figure 9.1., is a mathematical expression of something which in principle should be clear, but in practice turns out to be very complicated. None of these three cases can be put clearly in one of the four categories. Although in general there is shared-decision making, the three alliances in this study also show instances of split control and dominant partner control during the operationalization of control. It is apparent that the equal position of both parties in these three alliances (there is no equity share and both parties have an equal position) results in shared management decision-making control over the general policy of the alliance. Once they come to the procedural execution of control, the dominant expertise of the partner will play a role.

*The partner who has an equal position in the alliance would be likely to have a share in decision-making control. However, their different skills may lead them to split control or dominant control during the execution of control.*

#### 9.2.4.2. Focus of Control

Several authors criticized the extent of control perspectives and classifications of control (dominant, split, shared and independent) in strategic alliances because there are many more mechanisms for exercising control than those related to decision making that we discussed in the previous section (see e.g. Schaan 1983, Geringer & Herbert 1989). From Schaan's findings (1983), it is shown that alliance partners will not focus their control on the overall alliance activities but in particular areas that are strategically important for them. With respect to the focus of control, several researchers distinguish control over strategic, financial and operational matters (Lorange & Roos 1992, Child et al. 1997). They describe strategic control as control over the means and methods based upon which the whole conduct of an organization depends. Financial control is related to the costs and results of the strategic alliance activities. Operational control is control over the production process within an organization. Some scholars (Schaan 1983, Geringer & Hebert 1989) indicate that this focus of control can cover activities that are:

- 1) perceived as important by one partner,
- 2) closely related to their core activities,
- 3) linked to relatively strong capabilities of the partner, and
- 4) related to the strategic importance of the ISA.

For, example, if a partner contributes a relatively new technology it may focus on this aspect for the strategic alliance by having the right to appoint the head of the research department.

The above theoretical argument proved to be plausible for the three cases we studied. Akzo Nobel-Huntsman stated that operational and financial controls are the most important activities in their partnership. These two foci of control are highly related to the core activities and the strategic importance of this alliance, which mainly focuses on the supply of raw materials. Since this partnership does not have a significant influence on the strategic direction of both companies, there is no strategic control implemented in this cooperation.

The Avebe-Noveon partnership focused their control on the joint development of a product and can, therefore, be categorized as operational control. This focus was associated with the core activities and the strong capabilities of both partners in the advanced technology of textile printing. Although the marketing of the product was also an important issue in this alliance, this subject was given less attention because people who initially played an important role in this alliance moved to other positions or left the company during the marketing period. It meant that there was reorganization in both companies that eventually diminished the commitment to the project. Since the scope of the alliance was limited to particular activities and did not have a direct influence on the strategic direction of both companies, no strategic control was put in place in this partnership.

*It just did not make any sense to exercise any organizational control. We were just trying to take advantage of our technical capabilities and our marketing competencies within different regions in the world. We were hoping to increase their sales of natural thickeners through our contact here in the U.S. and we were hoping that Avebe would sell the blend in Europe because they had a better network there. It was not an alliance that was set up to share income or anything like that. It was set up to share technical and marketing information within regions in the world. We both took advantage of each other's competencies but it was not necessary to control every aspect.*

*(Noveon Vice President of Technology, 16 May 2002)*

In the KLM-Northwest alliance, the scope of the cooperation was so broad and each policy had such a strategic influence on both airlines that both carriers decided to exercise intensive control over the strategic direction as well as over the financial and operational aspects.

The comparison between these three cases provides an important conclusion about the recognition of ISAs' strategic importance:

*The focus of control in alliances can be divided into three aspects i.e. strategic, financial and operational control. These foci are strongly associated with the strategic importance of ISAs and the capabilities of the partners.*

### 9.2.4.3. Spill-over of control

In strategic alliances between competitors, the partner firms inevitably have conflicting objectives and interests, and must nevertheless be able to manage the tension of cooperation and competition in their relationship. In these types of alliances, each partner must be open enough to collaborate efficiently with its rival allies, while still concealing critical knowledge in order to protect its vital interest (Hamel 1991, Lorange & Roos 1992, Nooteboom 1999, King et al. 2001). Therefore, the protection of core competences is undeniably important. Here, core competence could be seen as a combination of knowledge and skills; they represent both the underlying knowledge base and the set of skills required to execute useful actions (King et al. 2001). According to Nooteboom (1999), there are three conditions that determine the risk of spill-over of control: the type of knowledge, linkage of competitor and speed of technological change.

Our empirical study indicates that the most dominant factor in horizontal alliances is the presence of direct or indirect linkages with competitors. It is likely that alliances between indirect competitors do not seriously encounter a problem of competition because both parties do not compete directly in the market. As demonstrated in our case studies, the three horizontal alliances in this study operated in different markets that eventually decreased the degree of competition among the alliance members. All partners in this study had relatively different core competences, which allowed them to retain their unique position in their alliance. However, that does not mean that they were free from competition. Evidence from the KLM-Northwest and Avebe-Noveon cases clearly illustrated the existence of competition. In the beginning of the KLM-Northwest partnership, intensive competition occurred between the sales people of both companies. As they still kept their sales representatives in North America and Europe till 1997, both carriers faced difficulties in managing competition at the sales level because Northwest's sales people preferred to advise customers to travel with Northwest, likewise the KLM staff. Finally, both companies minimized the tension of competition between them by implementing "a colorblind approach" to sales from 1998 onwards. Since then, Northwest was totally responsible for the sales in North America and KLM was responsible for the European market. This new settlement has not only resolved the competition problem but also proved to be a brilliant strategy to minimize the operation costs and optimize the JV's profitability. With this system, the sales people ought to put passengers on the flights that make the most economic sense for the total JV.

In the Avebe-Noveon case, we saw a very interesting change in competition. At the beginning of their partnership, both partners enjoyed a mutual cooperation without any sense of competition. The tension of competition started to shake the alliance after Noveon purchased Diamalt, a direct competitor of Avebe in Europe. Soon after that, both partners found their



salesmen competing with each other in the same market (Europe and Asia). This competitive situation threatened the alliance's continuation. Both parties were not interested in continuing the cooperation. Their joint product had poor commercial success and they started to compete with each other in the same market. The alliance collapsed shortly after the Diamalt acquisition. It is clear that the shift in position from indirect competitor to direct competitor has changed the Avebe-Noveon relationship. This is congruent with the results of a quantitative study conducted by Mowery et al. (1996) that states that firms are less likely to share their capabilities with partners when they are direct competitors in product markets, whereas partners who do not compete in the same market are likely to have a low degree of competition. Thus, the risk of spill-over of control seems to be higher between direct competitors than indirect competitors.

It is also important to take into account that the risk of spill-over is highly related to what partners share in the alliance. In this respect, we see that the main subject of the Akzo Nobel-Huntsman alliance is purely about the supply of raw materials. Both partners do not significantly share their core competence in know-how so that the risk of spill-over is relatively low in this partnership. The situation was completely different in the Avebe-Noveon alliance, which had shared knowledge as a core component within their alliance. Although both companies had dissimilar types of technology and different business interest, they were fully aware of the fact that their partner could also become a competitor in the near future. Therefore, they prevented a strong spill-over of control by keeping their core product's specific ingredient away from their partner. It meant that both partners could not simply break the alliance and ask other companies to make starch/acrylate for them. In order to prevent competition in the same market, Avebe and Noveon also signed a marketing agreement to divide the world market into two. Both parties agreed not to enter into the markets that were under responsibility of their partner. Furthermore, in order to keep competitive advantages in the eyes of the competitors, Avebe and Noveon did not officially announce that they worked together to create their premium product.

Strong protection of core competencies was not significant in the KLM-Northwest partnership. Their scope of cooperation is so extensive and closely linked to each other that both partners thought it not useful to conceal anything from their partner. In addition, they also believe that the high speed of change in environment and technology will diminish the value of their competence. Whatever they keep secret today will not be a secret anymore within one year's time. The high speed of change in technology requires the alliance partner to open up their key contribution. This evidence supports Nooteboom's (1999, p.50) analysis that spill-over also depends on the speed of technological change. If the technological make-up of products changes more rapidly than it would take

for the relevant information to spill over to competitors and be used for imitation, then the fear of spill-over disappears.

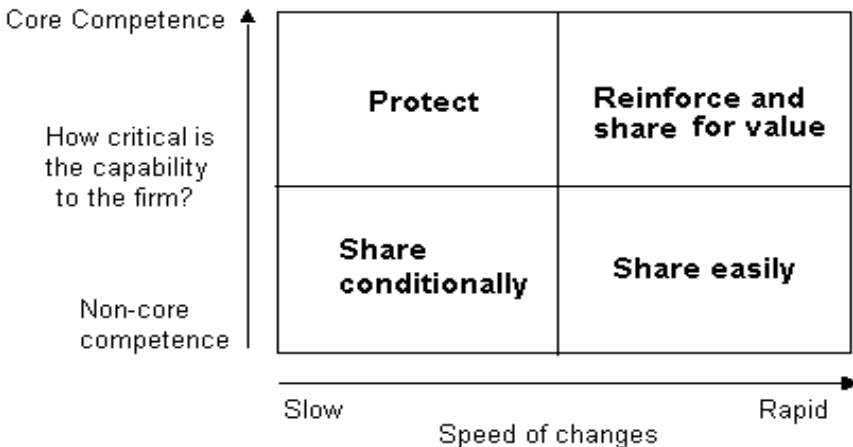
*The risk of spill-over is strongly dependent on three variables:*

- (1) *the presence of direct or indirect linkages of competitors*
  - ➡ *Partners who do not compete in the same market face a lower degree of competition than partners who directly compete with each other*
- (2) *the type of knowledge*
  - ➡ *In order to remain unique, important know-how that belongs to the company's core competencies should be protected*
- (3) *the speed of change*
  - ➡ *Technology or know-how that changes rapidly should be shared with the partner and not be kept to oneself*

Alliance managers should carefully consider the positive and negative impacts of keeping or sharing their company's core competence with their partner.

The conclusion we may draw from the literature and the case studies is that the importance of spill-over of control is determined by the type of knowledge and the speed of technological change. This can be illustrated in Figure 9.2.

Figure 9.2. The implementation of spill-over of control



The level of protection required is determined by *how critical the capability is to the firm* and the *speed of change of the related technology*. If the capability is a part of the firm's core competence and the speed of technological change is low, the capability should be protected. If the capability is critical but the technological change is rapid, it is better to share it with partners to maximize

value. On the other hand, if the capability is not the core competence of the company but the speed of technological change is relatively low, perhaps it is better to share conditionally. If the capability is not critical and technological changes take place rapidly, it can easily be shared.

The protection of a capability can be ensured either by legal means, e.g. licensing or restricted contracts, or by physical protection to prevent the partner's employees from coming into contact with and learning about the technology. This spill-over effect has been described in management literature (see e.g. Khanna et al. 1998, King et al. 2001). One outcome was that a partner can be 'dumped' and the partner company may proceed further on its own. Another result can be that the partner is forced to give up more (access to) knowledge or be satisfied with a less lucrative remuneration in order to continue benefiting from the alliance.

### **9.2.5. Conflict**

#### **9.2.5.1. The effect of conflict intensity**

The effect of conflict intensity on the alliance performance is widely investigated and, almost without exception, the evaluation is negative. Conflicts make co-operation difficult, and without co-operation, the achievement of the goals will be nearly impossible (Johnson et al. 1993). In an alliance with a high intensity of conflict, the partners will focus more on closely monitoring the relationship because each partner is afraid that their interests will not be fully taken into account. In principle conflicts have to be resolved and that will cost precious management time. Thus, the costs of the co-operation increase when there is conflict. As a result, the economic performance of the strategic alliance will decrease and the benefits (revenues minus cost) for the partner will diminish (Bucklin & Sengupta 1993). Conflict will also have a negative effect on the satisfaction of the partner. Conflict erodes satisfaction because participants in the strategic alliance may be unable to keep up the morale and function effectively on a day-to-day basis (Johnson et al. 1993).

In the Akzo Nobel-Huntsman case, it was observed that there was a moderate level of conflict. Sometimes both companies had a different interpretation of the contract when the turn of events deviated from the initial plan. This situation obviously stimulated an argument about the principle, how to approach financial matters, what to take into account and what should be left out from the discussion. So far, they could solve it in a "friendly" and open way. Huntsman and Akzo Nobel realized that they were highly dependent on each other, hence both parties were willing to compromise and take a long-term view of their co-operation.

*We are increasingly dependent on each other. This interdependency has an impact on how we negotiate and how we deal with each other. There is more pressure from both partners to get a deal because we can not grow the business by ourselves. Therefore in each*

*negotiation, we try to reach an acceptable solution. We want both parties to have a win-win solution.*  
(Former Huntsman Purchasing Manager, 14 September 2001)

After having successfully resolved the maintenance issue, both partners had a very positive view about the alliance and perceived the disagreement they had as a challenging issue to find a better way of cooperation. This conflict resolution was highly suitable for clearing the air and providing an outlet to express grievances.

*I may say that by dealing with this issue, trying to solve it for the next maintenance stop in a qualitative way, we could even strengthen our relationship instead of having only a negative aspect from it.*  
(Akzo Nobel President Base Chemical, 23 September 2002)

In the end, both companies expressed their satisfaction with the alliance performance. The relationship proved to be challenging and very professional. Most importantly, the economic benefits they derived from this co-operation were indeed commercially satisfactory for both parties.

In the Avebe-Noveon case, we see that there was almost absence of conflict. Both parties perceived the alliance relationship to be excellent. But it did not mean that they were satisfied with the overall performance of the alliance because the financial outcome was poor. As a result, both partners were satisfied with the relationship but they were not satisfied with the alliance performance because their joint product failed to enter the market.

*In general, Noveon are not satisfied with the alliance. It started up with the best intention but it did not work. I don't think either one of us made any money from it. We expected that it would be a long-lasting relationship but it has not turned out to be like that. I think there is disappointment on both sides.*

(Noveon Vice President of Technology, 16 May 2002)

The quotation above expresses the partner's feelings of dissatisfaction about the performance of the alliance. It is apparent that the economic outcome determined the performance evaluation.

In the KLM-Northwest case, we saw almost the opposite. This alliance is characterized by a high level of conflict. Interestingly, in general, KLM is satisfied with the relationship they have in this partnership. Although they are not fully satisfied with the quality of service of Northwest, both airlines still view the economic performance of the alliance as excellent. Hence, the KLM-Northwest case does not fully support our literature analysis that a high intensity of conflict may lower the economic performance and reduce the level of satisfaction about the relationship. This evidence enhanced our understanding that once an alliance is formed, based on a joint economic interest, its success subsequently depends on the dynamic change in the partner's economic interests and the effective implementation of alliance activities. An alliance is able to sustain its structure and remain an efficient mechanism for inter-firm transaction as long as partners'

economic interest exceeds potential costs in managing the alliance. Alliance partners will be more eager to solve conflicts about managerial and organizational differences as long as potential economic benefits remain high.

Hence, we can conclude that:

*If conflict in the alliance increases and the economic performance is low, then it is likely that satisfaction about the performance decreases.*

The above empirical results indicate that conflict is not always negative. One might say that it is even natural to have conflicts. The KLM Alliance Manager found that the disagreements had a positive effect because they opened the way for dialogue about issues, how things were done and how things could be or should be improved (KLM Alliance Manager, 24 October 2001). Managing conflicts properly can have positive outcomes. It can also be seen as an aid to incremental improvements in organization design and functioning, and to the decision-making process. It is obvious that problems can play a positive role by testing the commitment of the partners, thus further cementing the relationship. Some conflicts therefore were healthy since contributions and commitment were measured through sacrifices made. Hamel et al. (1989, p.134) even suggest that occasional conflict is the best evidence of a mutually beneficial collaboration. If kept functional, conflicts can serve as a problem-solving procedure and as a way to clear the air. This might result in more frequent and effective communication between the partners, a critical review of past actions, a more equitable distribution of system resources, a more balanced power distribution in the relationship and a standardization of modes of conflict resolution (Johnson et al. 1993, Morgan & Hunt 1994).

Such empirical evidence points to the relevance of a variable that so far has been left out in this research, namely interdependencies. There are scholars who studied the relationship between conflict and the degree of interdependencies in the alliance partnership (e.g. Thompson 1967, Robey & Sales 1994, Kumar & Diessel 1996). Kumar and Diessel (1996) suggest that the level and the nature of interdependence are likely to influence the potential and source of conflict. To examine interdependence, we apply Thompson's (1967) "inter-dependence" view of the organization. Thompson distinguishes three different ways in which the work of organizational units may be dependent on each other:

1. In pooled dependency, units share and use common resources but are otherwise independent. An across-firm example would be two partners (or more) that use the same product or technology for their own business but remain independent. The Avebe-Huntsman alliance matches this definition.

2. In sequential dependency, units work in series where the output from one unit becomes the input for another unit. An inter-firm example would be

the various supplier-customer relationships among “a value system” or a logistic chain, such as that found in the Akzo Nobel-Huntsman partnership.

3. In reciprocal dependency, units feed their work back and forth; both partners receive input from and provide output to others. A sample of this type of inter-dependency would be an alliance where partners are working together to design, develop, produce, and deliver their joint product. KLM-Northwest alliance definitely belongs to this category.

Robey and Sales (1994) state that pooled interdependency involves minimal direct contact among the units. This minimal interaction between units reduces the need for co-ordination and minimizes the possibility of conflict. In sequential interdependency there is always a greater element of contingency, as each position in the sequence must be readjusted if any upstream position fails to meet the expectations. Robey and Sales (p.20) suggest that in the case of sequential interdependency “this greater degree of interdependencies is a frequent contributor to conflict” as “problems and errors have a tendency to travel downstream and often the responsibility for error is hard to trace”. In addition, Kumar and Diessel (1996) suggest that there are distinct parallels between the three types of interdependencies and the types of coordination:

- with pooled interdependence, coordination by standardization is appropriate;
- with sequential interdependence coordination by plan is appropriate; and
- with reciprocal interdependence, coordination by mutual adjustment is called upon.

These coordination mechanisms are increasingly complex and indeterminate in nature and place increasingly heavy burdens on communication and decision-making (Thompson 1967, p.56). He suggests that a more complex coordination mechanism increases the need for human intervention and contact. He further states that increasing direct contact increases the likelihood of differences between the interacting members, thereby increasing the possibility of conflict.

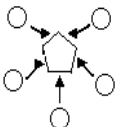


This analysis of interdependencies perfectly matches with what we found in our case studies. The Avebe-Noveon case is a perfect sample of pooled interdependency because they only depended on the product that they had created together. Each partner carried out the marketing effort separately. Hence, there was a low degree of interdependency that eventually resulted in a low degree of conflict.

The Akzo Nobel-Huntsman cooperation required the use of standards, schedules, plans and rules which introduced another layer of complexity in the relationship. The increased need for direct contact in this alliance also increased the possibility of human understanding and error. Consequently, a high degree of interdependency and a medium level of conflict are features of this alliance.

The KLM-Northwest alliance is characterized by a high level of conflict as a result of reciprocal interdependency and the highest level of contingency. To counter the complexity in the coordination mechanism, this alliance required a

high degree of mutual adjustment. For instance, to make the alliance work, both airlines had not only standardized their reservation booking system but also tried to provide the same service to the passengers. Furthermore, this alliance was restricted by a great number of regulations that obviously increased the risk of conflict. The degree of interdependency and the potentiality of conflict in these three cases are summarized in Figure 9.3.

Figure 9.3. Interdependency and potentiality of conflict

Type of Interdependency	Pooled Interdependency	Sequential Interdependency	Reciprocal Interdependency
Configuration			
Coordination Mechanism	Standards & Rules	Standards, Rules, Schedules & Plans	Standards, Rules, Schedules, Plans & mutual adjustment
Potential for conflict	Low	Medium	High
The sample within our case studies	<b>Avebe-Noveon alliance</b>	<b>Akzo Nobel-Huntsman alliance</b>	<b>KLM-Northwest alliance</b>
Characteristic of conflict	Low	Medium	High
Degree of interdependency	Low	High	High

Source: Adapted from Robey & Sales (1994)

Based on the above argument, we believe that the interdependency factor should be added to our model. Therefore, we can draw the following conclusion:

*The nature of interdependencies is likely to have an impact on the issue of conflict. If the level of interdependency increases the chance of conflict is greater.*

#### 9.2.5.2. The effects of partner contribution and control on conflict

The game theory suggests that the necessary condition for co-operation is a distribution mechanism that is perceived as equitable (Umbreit 1995). Equality

refers to a proportionate payoff based on one's input i.e., the more inputs the more payoffs. The need for equality, or the need to treat each other fairly, can seriously affect the relationship between partners. The literature review in Chapter 4 (the conflict section) indicated that the inequality or defection of partner contribution could stimulate conflict in an alliance. This condition could happen as well in the control aspect i.e. if one partner feels that the other partner gains too much control over the decision-making process, the party with less influence may diminish its commitment to the alliance.

The Akzo Nobel-Huntsman case clearly shows the impact of partner contribution and control as a stimulating factor of conflict. Our case description in Chapter 6 indicates that the major issue both partners ought to deal with was related to the maintenance stop problem. Every two years, ShinEtsu has to shut down their PVC factory for a maintenance inspection that apparently has a direct impact on Huntsman's and Akzo Nobel's production because Huntsman also has to close their MDI production whilst Akzo Nobel is unable to send chlorine to the Huntsman site. This manifest problem exploded in May 2001 when ShinEtsu's maintenance stop took longer than was allocated. The unproductive period evidently impeded the contribution all partners should have provided. The extended period of outage showed that the operationalization of control did not function very well. This issue precipitated and became a serious problem in the alliance.

In the Avebe-Noveon case, there was no strong evidence that supports our assumption about the influences of partner contribution and control as factors influencing conflict. Nevertheless, one of the causes of termination was triggered by the unsatisfactory sales performance that was caused by a lack of control and coordination during the marketing phase. This situation did not directly provoke a conflict but had a significant impact on the final destiny of the alliance. The cooperation collapsed because both partners did not see the economic benefits of continuing this partnership.

The KLM-Northwest case provides a clearer picture about this issue. As described in the case report, this alliance was characterized by a high density of conflict. One of the prominent conflicts was the view about the network settlement, whether they wanted to fly, stop flying or increase/decrease the frequency of flying to particular destinations. This issue is essential because it is related to each partner's contribution in this alliance. The souring alliance relationship between 1994 and 1997 illustrated the role of control as a causative factor of conflict. At that time, KLM had a possibility to increase its share in Northwest but it was perceived by the American partner as an attempt to gain control over their company. Finally, both airlines completely renegotiated the agreement and changed the composition of control and contribution to a 50:50 basis. The main tenet of this new arrangement is equal participation and mutual influence in the decision-making process, which hopefully fosters the alliance's



success and ensures its viability. Based on the arguments from the literature and the case findings, we draw two conclusions.

- ▶ *A different perception between expected and actual contribution can provoke conflict in the alliance partnership.*
- ▶ *Unbalanced bargaining power is likely to stimulate conflict in an alliance.*

### 9.2.6. Communication

The literature indicates that communication processes underlie most aspects of any organizational functioning and these processes are identified as critical to the success of an alliance (e.g. Mohr & Nevin 1993, Olson & Singsuwan 1997, Parkhe 1993). The agency and game theories suggest transparency of information between each party to ensure that all partners will behave in harmony with the commitment they initially agreed to in their partnership. To assess how communication is implemented in an alliance, we employ Habermas's (1984, 1986, 2001) distinction between communicative and strategic actions. Communicative action is action oriented toward understanding (*Verständigung*) that has three functional aspects: reaching understanding, coordinating action, and the socialization of individuals (Habermas 2001). Alliance partners carry out speech acts whereby the success of the interaction depends on the reply of its partner to three validity claims: propositional truth, normative rightness and subjective truthfulness. These three validity claims embrace the eminent role of trust, cross-cultural differences and negotiation in ISAs. Participants in communicative action can pursue their aims only cooperatively. The means of success are not at the disposal of the individual actor but are dependent on the cooperation (more precisely, the recognition) of others. Habermas (2001) identifies two mechanisms for coordinating social actions: consensus (*Einverständnis*) and influence (*Einflußnahme*). He argues that participants in everyday processes of communication cannot simultaneously intend to reach understanding (consensus) with another participant and to influence (have a causal effect on) that participant at the same time.

Strategic action, in contrast, has to do with power. Here, actions are coordinated through influence rather than consensus, the agents are oriented toward success rather than toward understanding. Whereas Habermas describes action oriented toward understanding (consensus) as communicative action, he describes action oriented toward success as instrumental action. Strategic actions are instrumental to the extent that participants in strategic action instrumentalize one another as a means for achieving their respective goals. The aims of communicative action are situated conceptually within the linguistically constituted life world. In contrast, the aims of strategic action must be conceptualized as part of the objective world of facts and existing states of affairs

(Cooke 1994, p.22). The means of success in communicative action are dependent on the cooperation of others. In contrast, partners in strategic action do not depend on the recognition of others. They can treat other persons as though they were objects or entities in the physical world.

All managers interviewed in this research strongly emphasized that communication and interaction at all levels, with the consequent sharing of information, were essential for efficient coordination and were absolutely critical to a successful relationship. The maintenance dispute between Akzo Nobel and Huntsman was one example of strategic action, which took shape when the problem occurred. Although Akzo Nobel had informed Huntsman beforehand about the long maintenance stop, still a conflict occurred because the American partner perceived that there was no real appropriate action taken to make this outage shorter. On the other hand, the Dutch partner argued that the maintenance stop period was determined by the maintenance requirement. They did their utmost to keep the maintenance stop as short as possible but they were in no position to guarantee a short maintenance stop. It is apparent that these two different perspectives were not clearly explained and discussed in the first place. This incident provides a valuable message that communication is not simply informing partners about problems in their partnership but that it should also facilitate open interaction between all the existing parties to reach a mutual understanding about the conflicting issue. Drake and Donohue (1996) suggested that good communication should function as a kind of negotiations. Negotiations refer to proposing, accepting and rejecting interaction modes, which are indeed the essence of communicative action. In this case, we have seen that the negotiation function did not work sufficiently in the early stage of the problem. The communication implemented during that process could be categorized as strategic actions where partners were oriented toward success about their own objective rather than reaching mutual understanding. If both partners had thoroughly explained the situation and discussed the issue from the beginning, it would have been easier to find a mutually acceptable solution before the extended maintenance outage occurred. By discussing the ideas of the other party, both companies would have started to establish an open atmosphere to gain a common understanding about each other's point of view, and that could have resulted in a mutually satisfactory deal before the problem affected the alliance. We have seen that after the maintenance problem occurred, the mode of communication eventually shifted from strategic action to communicative action. Both partners started to deliberately explain the problem to each other to gain mutual understanding about the bottom line of the issue that eventually enabled them to find a mutually acceptable solution.

In the Avebe-Noveon case, it is obvious that communication in this alliance was lacking and became a part of the reason why this alliance was terminated. Although in the beginning, there was excellent communication in this alliance it deteriorated over the time. In the operational phase of the alliance, some people

in Noveon and Avebe who played a role in this cooperation moved to other positions, which ultimately eroded the collective commitment to this project. Since then, there was almost no contact between these two companies. As a result of this poor communication, Noveon still does not know about Avebe's marketing result and vice versa. This lack of communication not only resulted in a misunderstanding about the cause of the failure of the alliance but also hampered mutual understanding that should have been nurtured by both parties, as illustrated in the following quote.

*Avebe was having some technical difficulties in producing the product that we were trying to develop and we were getting a little frustrated that we were not seeing the sample of the new development. I don't think we paid enough attention to understand why we were not getting those things and I don't think we were not trying hard enough to find it out. I think we just assumed that they were not doing anything.*

*(Noveon Vice President of Technology, 16 May 2002)*

The above statement is frank and it indicates the prevalence of strategic actions in this partnership. It appeared that communication began to suffer. Their partner was interpreted and judged according to the results they obtained. Since Noveon did not promptly receive the required sample, they assumed that their partner had not done anything and did not try to find out about the kind of issues the Dutch partner had been facing. The same situation happened when Noveon acquired Diamalt, which was apparently followed by Noveon's complaint about Avebe's quality product. This unproven claim made the Dutch partner surmise that their partner had created an excuse to stop buying products from them. All participants had different perceptions about the hostile situation and no attempt had been made to clear the air (e.g. by setting up an open communication) that finally undermined the alliance relationship.

The KLM-Northwest alliance, on the other hand, provides a different example. Since the beginning of their partnership, both parties have always been highly aware of the eminent role of communication as a key success of the alliance. They allocated several representatives to the head office of their partners to take care of the day-to-day alliance relationship. In addition, KLM installed an alliance department that works closely together with Northwest's alliance department to make sure that the communication would function optimally. They organize regular meetings every three months that always end with a joint dinner in which everyone meets and where social ties are strengthened. Friendships were established over the years, which obviously created a positive atmosphere in this alliance. Although this alliance has been challenged by a lot of conflicts, interestingly both partners get along very well. KLM and Northwest always resolve their problems by striving to maintain open communication to reach mutual understanding. Both parties are willing to reach consensus in order to find common solutions in every conflicting issue. According to Habermas (2001), "consensus" as a mechanism of social

coordination is connected with the idea of understanding and the process of reaching an agreement. This type of communication proved to be a powerful tool to resolve problems in the alliance and an important vehicle to build trust, which is indeed essential for a healthy successful partnership.

*To make the alliance work, we need a lot of trust and a lot of communication. If you don't have communication, you don't have trust. You have to have a lot of communication. With communication, you understand the issues, you talk to each other very openly and then you develop trust.*

*(Northwest Senior Vice President of Alliances, 14 May 2002)*

Trust and mutual understanding apparently are the unique characteristics of the KLM-Northwest partnership. In the other two cases, no one referred to trust, which apparently endangers the alliance continuity. Only KLM was able to deal with trust properly and settle matters in terms of friendship. This is their unique ability that became a part of their success. They relied on each other to make the alliance work. Although in the Akzo Nobel-Huntsman case the American partners expressed their trust to the Akzo Nobel President Base Chemicals, apparently this confidence did not permeate throughout the whole chain. The appearance of ShinEtsu as a newcomer in the chain made the situation more complicated because there was no communication with the newcomer. In the end, it created a significant problem in the alliance. Both partners were more eager to fall back on the contract than promote communicative action within their partnership.

In the Avebe-Noveon partnership, trust decreased over time because after the failure of the marketing campaign those involved in this project rarely communicated with each other. Both partners carried on with their own assumption. Noveon perceived the takeover of Diamalt as a stimulating factor that caused misunderstanding but the Dutch partner thought that Noveon had created an excuse for not buying their product. Noveon's unproven claim about the poor quality of Avebe product had broken the friendship and trust in this alliance.

As discussed in Chapter 4, the success of communicative actions highly depends on the use of language and the impact of culture. Language not only labels and distinguishes the environment for us but also structures and guides our thinking pattern (Mullins 2002, p. 390). Cultural differences are relevant because they emphasize the impact of social learning on the perceptions of people and their surrounding. The impact of cross-cultural differences was evident in the Avebe-Noveon partnership. Although the Dutch managers involved in the alliance spoke English fluently, their interpretation of American English seemed to be different.

*We talked to one another but talking was not necessarily communicating. We talked but perhaps the ideas did not go across. I think occasionally we were probably saying the same things and both of us interpreting differently. When they came back a month later with the question, then we knew that they didn't get what we were trying to say.*

*(Noveon Vice President of Technology, 16 May 2002)*

As a result, both partners had misunderstandings about who would service which part of the world and who would be responsible for which regions. The different cultures between America and Holland also had an impact on how both partners viewed their business. The Americans tended to be more aggressive in achieving their goals compared to their Dutch partner. This different attitude in doing business was one of the reasons why Noveon had given up sooner than Avebe.



In the KLM-Northwest alliance, the cultural divergences were strong at the beginning of the partnership but diminished over time. In the alliance process, friendships were established among managers of both airlines that slowly but surely diminished cross-cultural misunderstanding and reinforced trust among them. In the Akzo Nobel-Huntsman alliance, we did not observe significant cultural differences. The fact that Huntsman's MDI production is located in the Netherlands and that the Huntsman representative in this alliance is a Dutchman can be the logical explanation for the limited cultural problem. The only cultural differences they felt were related to the different styles of management. The changing MDI ownership from ICI (British company) to Huntsman (American company) made the current Huntsman management styles more straightforward, contract minded, more aware of personnel involvement and ambitious in developing the business.

Habermas's (2001) theory about communicative action also underlines that subjective truthfulness always plays a dominant role in human interaction, hence the ability to negotiate and convince partners is an essential feature of communication. The alliance partner can ask for example "what reason do you have for expecting me to believe you mean that?" (Cooke 1994, p. 60). According to Ghauri (1996), business negotiations refer to win-win situations where both or all parties involved can end up with equally beneficial or attractive outcomes. In negotiations, alliance partners can influence the process in such a way that both can get a better deal than by simply accepting or rejecting what the other party is offering. Habermas (2001) states that participants in communicative action can pursue their aims only cooperatively. Therefore, an aptitude for negotiation is indeed essential because the means of success are not at the disposal of the individual partner but are dependent upon the cooperation (more precisely, the recognition) of others, which in the KLM-Northwest partnership was realized through consensus on all kinds of issues. We did not, however, see the same aptitude to clear the air and reach mutual understanding in the other two case studies. Partners in these two alliances seem to be more oriented toward their own success and the achievement of their own goals. This is identical to strategic action and that type of interaction apparently has an impact on how each partner perceives the issues of contribution, control and conflict. In the Avebe-Noveon alliance, partners obviously evaluated the results

based on the economic performance of the alliance without endeavoring to know why both partners failed in entering the market. An intensive interaction slowed down during the marketing of the product that made both companies lose control over the alliance operation. The same situation happened in the Akzo-Huntsman alliance. Although there was regular exchange of information between the Akzo maintenance manager and the Huntsman purchasing manager, the interaction had more to do with strategic action. The maintenance stop dispute is a perfect illustration of strategic action. Even though Akzo Nobel had informed the American partner about the maintenance outage in advance, still a conflict occurred because the information was not sufficient for Huntsman to understand and accept why the maintenance stop took longer than usual. Both parties did not try to reach mutual understanding about the issue and take preventive action or find a better solution before the issue shook the alliance. In the event of a conflict, the two alliances did not take into consideration the validity claim of justification by looking at the contract or to the market whether they did a good job or not. We can see here that in a situation of strategic action, trust is not important. They behave like economic actors. Parties are more oriented toward their own success and achievement of their internal goal.

The KLM-Northwest case is different compared to the other two cases. Whereas the latter two cases dealt with each other too much in terms of strategic action, KLM and Northwest truly developed a linkage relationship, which was beyond strategic behavior. We can see that the economic interaction between these two airlines is not dominating the alliance relationship. For example, in the evaluation of partner contribution, KLM and Northwest were fully aware of the fact that the contribution was never exactly 50:50 as stated in the contract. Interestingly, this situation did not provoke any conflict because both were well informed and had discussed it in advance so that both partners reached a mutual understanding about the issue. In the end, differences were taken into account and adjusted during the regular Alliance Steering Committee meeting, which proved to be an effective procedure in the alliance to prevent misunderstanding. In the event of a conflict, both parties preferred to reach consensus in order to solve issues in the alliance. It is obvious that arose from this type of communication was more than just in economic interest. Through communicative action, in the terminology introduced in Chapter 4 (validity, trustworthiness, and justified behavior/justification), a kind of interaction developed which is much stronger than just in economic terms. The case comparisons above strengthen our view about the important role of communication in alliance relationship. How partners discern their contribution, control and conflict depends on the kind of communication that takes in place in their relationship. That in the end will have a crucial impact on the destiny of the alliance. We summarize the significant differences between communicative action and strategic action in Figure 9.4.

Figure 9.4. The differences between communicative action and strategic action

Explanation	Communicative Action	Strategic Action
Mechanism for coordinating action	Consensus	Influence
Pursued aim by	Cooperation	Without the recognition of others
The variable taken into consideration	Objective, social and subjective worlds	Objective
Orientation	Mutual understanding	Success
<b>Result</b>	 <b>Success of relationship</b>	 <b>Tension in relationship</b>
Sample in our cases	KLM-Northwest	Akzo Nobel-Huntsman, Avebe-Noveon

The above figure indicates that the success of communicative action depends on three validity claims about the objective, social and subjective worlds. They refer to the ability to build trust, manage cross-cultural differences and develop smart negotiations. Companies that respect interaction within the ISA by establishing communicative actions in the day-to-day alliance relationship build a strong foundation for their future cooperation because there is a bond of trust that is nurtured along the way. From the above, we can make the following conclusions:

*How partners perceive partner contribution, control and conflict in their relationship depends on the type of communication they use. Partners who implement communicative action in their day-to-day alliance relationship are likely to gain more success in their cooperation than partners who simply enhance strategic action.*

### 9.2.7. Performance

As an outcome of the alliance process, there is a need to know about the overall performance of the alliance. Measurement of performance is important because partners have certain expectations. Although much research has been devoted to performance, this issue remains a controversial topic. The controversy derives from the fact that performance can be defined and evaluated in several ways, and that few definitions and indicators of performance have been widely accepted. In this section, we will not prolong the different arguments about performance measurement. As discussed in Chapter 4, we use “objective measures” to assess the performance in our case studies. The main advantage of

this type of measurement is its ability to provide reliable information regarding the extent to which the alliance has achieved its overall objectives (Geringer & Hebert 1991). This includes the financial performance, the achievement of goals such as technology transfer, equitable division of rewards and “satisfaction” (see for example Beamish 1984, Geringer & Hebert 1991, Lee & Beamish 1995, Inkpen & Birkenshaw 1994). Satisfaction provides an indicator of the effectiveness and quality of the day-to-day interaction between the partners.

The vital question that needs to be answered as well as is related to the effect of performance on further development of alliances. Olk and Young (1997) suggest the importance of performance as a predictor of continuation and advancement. Their intensive quantitative study in this area highlights the fact that companies tend to continue successful cooperation and discontinue unsuccessful ones. In this sense, continued membership reflects a good performance and dissolution represents poor performance. It is generally believed that a strategic alliance perceived as performing successfully by partners is more likely to remain in operation than those that are viewed as less successful (Porter 1985). The decision to continue also depends upon the nature of the participation in the alliance and the context surrounding it: specifically the degree of dependence in the relationship and the degree of commitment to the alliance or to the other partner.

The impact of performance on alliance continuity is clearly illustrated in the Avebe-Noveon case. We can see in Table 9.1. (p. 238) that their alliance performance became relatively poor. Although both companies acknowledged that they had an excellent relationship throughout the years of their cooperation, unfortunately this cooperation was less profitable than they expected. This is indicated in the following quote.

*In general terms, we are satisfied with the relationship we have. Our partners are hard working and nice people. They are very open and honest. There were no cultural differences that could block the cooperation. In this respect, we are happy to work with them. On the other side, we are not fully satisfied because both companies suffered the same problem. They did not place enough attention on the marketing of the product. The commitment given to the project was not good enough.*

*(Former Managing Director of Avebe, 9 August 2001)*

As a result, the Avebe-Noveon partnership collapsed after their product failed in the market.

Quite a different situation is illustrated in the other two cases. From Table 9.1. (short recapitulation of the case results) it is apparent that although Akzo Nobel and Huntsman faced a hostile situation because of the maintenance issue, both parties evaluated the alliance as a successful cooperation because the financial performance was excellent. They have achieved the objectives of their cooperation and moreover there is a steady rapid growth of the business. In the KLM-Northwest alliance, although the Dutch partner expressed their dissatisfaction with the quality service of their partners, both parties conveyed



their satisfaction with the alliance relationship, the economic performance and the successful achievement of the alliance objectives.

The above empirical evidence shows that an alliance is likely to continue when economic benefits remain high. Dissolution happens only when the alliance is not financially viable. In addition to economic considerations, dissolving an ongoing cooperative structure is significant considering powerful social-psychological motivations to preserve the cooperative relationships that entail transaction-specific investment. Investments in inter-firm cooperation include not only economic and technological resources, but also social commitments and involvement of individual agents. It is not only in the economic but also in the psychological best interest of the organizational parties to find ways to preserve their socially embedded relationship when they face adverse situations. As illustrated in the Akzo Nobel-Huntsman and KLM-Northwest alliances, although they are characterized by medium and high density of conflicts, all partners expressed their satisfaction with the alliance. The admirable economic performance and the high interdependency of both partners in these alliances ensure a strong commitment of all respective managers to the alliance. Whatever difficult problems they face in their partnership, they always try to find a way out together. This feature did not exist in Avebe-Huntsman relationship. The unsatisfactory economic performance and the distance of relationship that occurred on the midway of the partnership decreased the commitment of both partners to the alliance.

This theoretical insight and empirical finding therefore suggest the following.

*Actual satisfaction of the alliance performance is positively related to the continuity of the alliance cooperation. Alliances that play a significant role in the company business and which sustain has a high economic performance are likely to continue than alliances that are less beneficial and not significantly important for a company's strategy and business.*

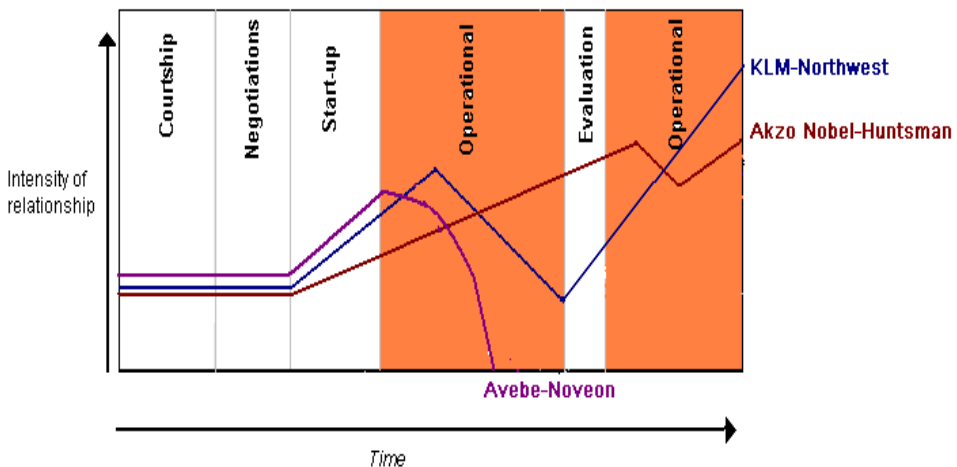
### 9.2.8. Further Development of Alliances

Alliances do not stand still, at least if they are to survive. For most alliances, however, the choice appears to be to either develop or fail. How cooperation develops is a question that scholars have so far tended to ignore (Ring Van de Ven 1994, Doz 1996). The development of alliances can proceed along different paths and lead to quite different outcomes. Our theoretical discussion in Chapter 3 indicates that, in general, the evolution of strategic alliances can be divided into three main phases: formation, operation and evaluation. The operational phase can be considered as an essential stage for the continuity of the ISA partnership. There are two possibilities that might appear in

this phase: the bond of alliance will become weaker or stronger. If both parties in the alliance can manage this phase successfully, they can continue their partnership but if they cannot manage it properly, then a divorce or a termination of the co-operation will be the final outcome.

The empirical results support our theoretical analysis that the operational phase is the most critical phase of alliance relationship. During this period, there is a possibility that the alliance will collapse. Two alliances in this sample, Akzo Nobel-Huntsman and KLM-Northwest, apparently faced significant problems during the operational phase of their cooperation. Avebe and Noveon, however terminated their cooperation during this critical phase. The development of these alliances is portrayed in Figure 9.4.

Figure 9.4. The Development of three alliances



The above figure is measured qualitatively based on our interviews with the respective managers of those alliances. We asked the respondents to sincerely describe their alliance relationship from the beginning up to the present. After we had finished the case analyses, we sent the case reports to them so that they could provide us with feedback and confirm the correctness of the case description. Two axes of Figure 9.4. indicate time and the intensity of relationship for the alliance partners. We use the term “intensity of relationship” to describe a positive sense about the relationship that increased in strength, as indicated, by increasing commitment and trust. As discussed in Chapter 3, alliances begin with a courtship stage, as does any relationship. If this goes well, detailed negotiations follow to develop an agreement. Then follows stage three the start-up, in which joint activities begin, and the intensity of relationship starts to increase. People try to get to know each other and build trust with one another. The next phase is an operational phase, which involves the routinization of operations and reporting relationships, as the organizations continue to work

together on an operational basis. This is, of course, the phase when the ultimate success of the alliance will be tested, as it gains in responsibilities, continues in a steady mode, or declines in importance and becomes marginalized by the partners. If alliance partners can manage their partnership properly, the intensity of relationship and mutual trust remain high, but if they cannot manage it appropriately then the alliance will sour and the level of trust will decline. Once they enter the evaluation phase, both partners will assess the alliance performance and define whether they will continue their cooperation or not. If they continue, they will enter the second operational phase of their partnership.

In the Akzo Nobel-Huntsman case, we can see that the alliance relationship grew immensely as a response to the remarkable development of the polyurethane business and increasing world market demand. Even in 1997, Akzo Nobel agreed to invest in Huntsman's second MDI plant and re-worked its evergreen contract to a fifteen-year long-term agreement. The graph portraying their relationship illustrates how the alliance broke down in the middle of 2001. At that time ShinEtsu experienced a long maintenance stop that greatly affected the Huntsman factory. Huntsman accused Akzo Nobel of not explaining the alliance contract to ShinEtsu clearly. The American partner reacted in a formal way by asking for a financial compensation for the losses they suffered during the long maintenance stop. This incident obviously undermined the relationship between these two companies. However it was not strong enough to break up the alliance. The high degree of interdependency might be the foremost reason that could explain this situation. In this case, chlorine is the main material of the Huntsman MDI plant and Akzo Nobel is the only reputable chlorine producer in the Netherlands that could handle the disposal of chlorinate product. In order to continue its business, Huntsman simply did not have any other choice but to continue the partnership. On the other hand, Huntsman is a major client of Akzo Nobel, hence a termination of the alliance will mean a significant loss of its chlorine business. Therefore, breaking up this alliance would not have resolved the existing problem but may even cause more complicated problems for both companies. Although both parties recently went through a difficult time, the initial commitment established a sufficient bond between the members to refrain from any opportunistic behavior.

In the Avebe-Noveon case, we see almost the opposite. Although the alliance graph shows an improvement ever since the start of their cooperation, there was a slump immediately after the marketing of the product, which was unsuccessful. At the same time, there was a reshuffling of management in Avebe and Noveon that eventually decreased the commitment of people who were involved in this alliance. Since then, the communication between both companies decelerated. The conditions became worse when Noveon purchased Diamalt, a direct competitor of Avebe. Although Noveon did not have any intention to threaten Avebe's position, their unproven claim about Avebe's quality product had irritated the alliance relationship. Trust leaked away. Both parties found it

difficult to manage the degree of competition in their partnership. There was no longer any incentive to continue the partnership. This alliance was terminated during the operational phase.

The KLM-Northwest case provides an excellent example of how companies manage the critical part of their alliance life and how the degree of interdependencies has an impact on the alliance relationship. Despite the enormous success of this alliance, this cooperation ran into trouble during the period 1994-1997 because both airlines disagreed about the extent of control KLM should have over Northwest. On the other hand, this alliance is significantly important for KLM because it affects 25% of the revenue of its passenger business unit. If something happened to Northwest, KLM does not have a sales organization in the United States. This is one of the reasons why KLM would like to have an influence over the long-term destiny of its partnership. On the other hand, Northwest is also highly dependent on this alliance because KLM is the only European partner for them. The breakup of this alliance would have a significant impact on both airlines. One thing for sure, it will reduce their revenue in the North Atlantic routes. The reciprocal dependencies in this alliance coerced both companies to find a mutually acceptable solution for their partnership. KLM finally decided to withdraw their financial involvement and improve their commercial participation by selling all their stocks back to Northwest and established a ten-year long-term agreement to make sure that both airlines can rely on each other for years to come. This new settlement restored the trust that had deteriorated for a while and gave new impetus for both airlines to consolidate their alliance further.

The above allows us to draw the following conclusions.

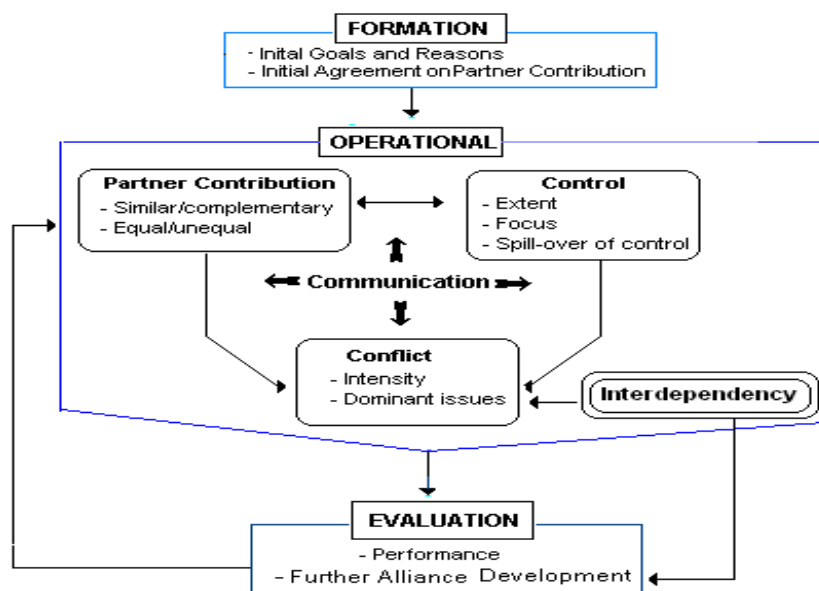
*If interdependencies increase, it is likely that the strategic alliance will continue.*

### 9.3. Conclusions

We started this research because we were curious about how alliances develop and we wanted to identify the important factors that influence their development. This research was based on the assumption that the operational phase is the most crucial phase in the alliance process. During this phase, alliance partners experience the realities of working on a daily basis with a partner who might have different motives, culture and so on that may stimulate conflict in their partnership. If both parties in an alliance can manage this phase successfully, it is likely that they will continue their partnership but if they cannot manage it properly then a divorce or an ending of co-operation might be the final decision. The empirical study confirms this assumption. One case study collapsed during the operational phase and two other cases encountered significant problems during this phase that apparently endangered the alliance continuity.

The comparison between the theoretical assumptions and the case studies enabled us to introduce some improvements to our conceptual model. Figure 9.5. Illustrates the adjustments, which improve the relevance of the model.

Figure 9.5. The Adjusted Research Model



First, our initial model in chapter 4 seems to be plausible. Initial goals and reasons for building an ISA proved to be essential and determine the function of a partner's capabilities, the implementation of control and became one of the measurements to assess the success and the failure of the strategic alliance. A clear contractual agreement is necessary to ensure that the partners will fulfill their objectives, prevent undesirable action by the partners and to define a mutual exit rule for the alliance. The alliance relationship develops through the interaction of exchange resources, the management of control and conflict during their partnership. Exchange of resources gives the parties control in return for their valuable contribution in the relationship. This exchange will foster co-operation if the contributions are made as anticipated. If a partner fails to provide an expected critical resource, conflict is more likely. On the other hand, control also affects the exchange of resources and affects conflict since control in an ISA may also provide access to more resources.

Second, one important conclusion we can draw from the empirical results of this study is the important role of communication in alliance relationships. Partners' perception of control and contribution of their alliance is highly dependent on how communication takes place during the partnership. Proper communication can also impede the escalation of conflict and become a mechanism to clear the air. The implementation of communicative action is an

efficient type of interaction that has three functional aspects: reaching understanding, coordination of action, and socialization of individuals. By sincerely talking to each other, accepting or rejecting the partner's ideas, and trying to find a mutually acceptable solution, both parties can reach understanding. On the other hand, strategic action can exert an unfavorable influence on the relationship in an ISA. Its main to ensure success does not induce mutual understanding between alliance partners and that in the end can endanger the alliance relationship. It is important to take note of the fact that in order to have a successful communication, alliance managers have to adopt different attitudes toward the three 'worlds' –the objective, the social and the subjective. These three worlds are the fundamental sources to express propositional truth, normative rightness and subjective truthfulness, which although distinct, interact in complex ways. Therefore, in handling these three fundamental validity claims alliance managers need to build and develop trust, to gain awareness and overcome the cross-cultural differences, and to properly manage the process of negotiations with their partners. These three aspects seem to be an essential feature in the implementation of communicative action, which in the end will significantly determine their alliance further development.

*Third*, our assumption that a high frequency of conflict will negatively influence a partner's satisfaction with the alliance performance has not been proven by this study. Managers whom we interviewed in this research mentioned the existence of conflict as natural and healthy in an ISA relationship. Even an occasional conflict could be the best evidence of a mutually beneficial collaboration. This contradictory result increases our awareness about one other determining factor that has been left unstudied but proved to be very significant in determining the continuity of an alliance: interdependency. This variable does not only enhance our understanding on various types of interdependency in horizontal alliances and the tendency of conflict intensity, but also the impact of interdependency factor in the alliance evolution. The three case studies in this research represent three different types of interdependencies: pooled (Avebe-Noveon), sequential (Akzo Nobel-Huntsman) and reciprocal (KLM-Northwest) Given the different levels of interdependency, they imply different levels of structurability and therefore imply different potentials of conflicts (see Figure 9.3). It is apparent that the higher the interdependency is, the greater the chance of conflict. Logically, a complex coordination mechanism increases the need for human intervention and contact, which in the end increase the likelihood that differences between the interacting members appear, thereby increasing the possibility of conflict. However, the knowledge that they are dependent on each other provides a synergy for the respective companies to work on issues in their alliances that in the end will increase the cohesiveness among partners. As a result, an alliance that has a high degree of interdependency will be more likely to continue than an alliance that has a low degree of interdependency.

competitive market. The question was whether they were going to position themselves on the high level of the market by offering an excellent service with a good price or were they just going for the cheapest market where quality is less important? KLM believed that it should go for the higher level of the market by offering good connections and an excellent service at a reasonable price. Northwest preferred to attract as many customers as possible by offering economical prices. Both airlines finally solved this issue by taking the middle solution. As far as the World Business Class is concerned, they apply KLM's perspective and for the tourist class they follow Northwest's strategy.

This leads us to draw the following conclusion.

*Clarity about partner's reasons to establish an alliance positively affects the implementation of partner contribution and control, and appears to be one of the partner's criteria in assessing the success and failure of ISAs.*

### 9.2.2. Alliance initial agreement

Partner interests affect the exchange of resources, because they decide the amount of resources to be contributed to the alliance. In this respect, the agency theory suggests that partners in ISAs ought to make clear to each other how each contribution will be shared in their alliance, and how to put into place the effective information system to be shared between them (Child & Faulkner 1998). Therefore, it is essential that the initial agreement established should be as clear as possible. A clear agreement will help ISA members to make their contribution and ensure that their partners fulfill their objectives.

The above issues as underlined by the agency theory (Child & Faulkner 1998) are not fully supported by the case findings. Since Akzo Nobel - Huntsman alliance started in the seventies, the Akzo Nobel managers had difficulties in tracing the alliance's initial contract stored in the archives of the company. It meant that they rarely relied on it. In enabling both companies to maintain their flexibility and to follow the dynamics of the market environment, they updated the contractual agreement a number of times. The last version is the most up-to-date reference for the day-to-day alliance operation. In every new agreement, both companies always tried to formulate the contract as clearly as possible to ensure that their partner would live up to their responsibility. This is also a part of their effort to protect themselves in case unexpected problems occur and threaten their partnership. Although they relied on the contract, eventually both companies strove to discuss and negotiate the risks and benefits of the alliance and did their utmost to find an equal balance, which ultimately proved to be of great help in managing their cooperation. However, in spite of the fact that the agreement was formulated as clearly as possible, different perceptions about the contract still exist.